

STATE BUDGET UPDATE



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<http://www.senate.michigan.gov/sfa/>

January 2007 Economic Forecast

- After increasing by 3.3% during 2006, the United States economy is expected to grow by 2.2% in 2007 and 2.7% in 2008.
- United States economic growth in 2007 and 2008 will be restrained by rising interest rates and the impact of these interest rate increases on the housing market and other consumer purchases.
- Following the 2001 recession, the United States economy did not experience significant employment growth until the summer of 2003. Since this time, United States employment has increased by 6.4 million jobs or 4.9%. United States payroll employment has increased for 40 consecutive months.
- The Michigan economy has shown little improvement since the 2001 recession.
- Since the Michigan employment peak in June 2000, Michigan employment has declined by 310,500 jobs or 6.6%.
- During this same time period Michigan has lost 30.2% of its total manufacturing jobs and has lost 40.0% of its auto-related manufacturing jobs.
- Michigan employment is expected to continue to decline during 2007 by 0.9% and by 0.6% during 2008. The estimated decline in employment during 2008 will mark the eighth consecutive year of employment decline in Michigan.

Figure 1

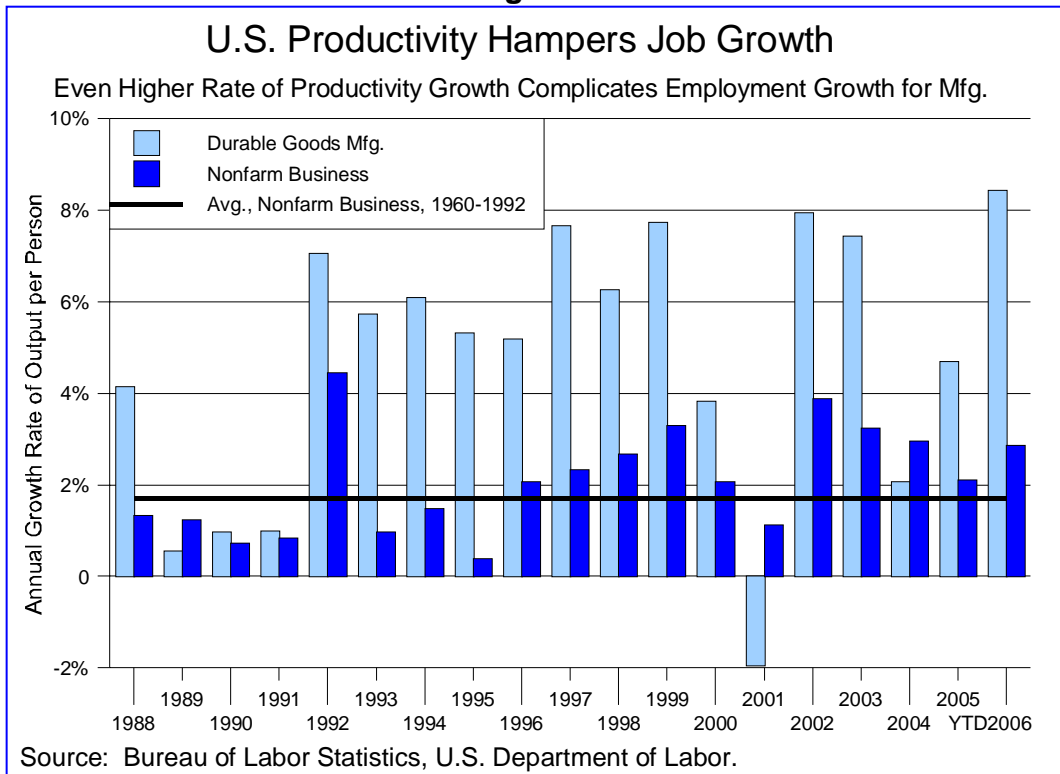


Figure 2

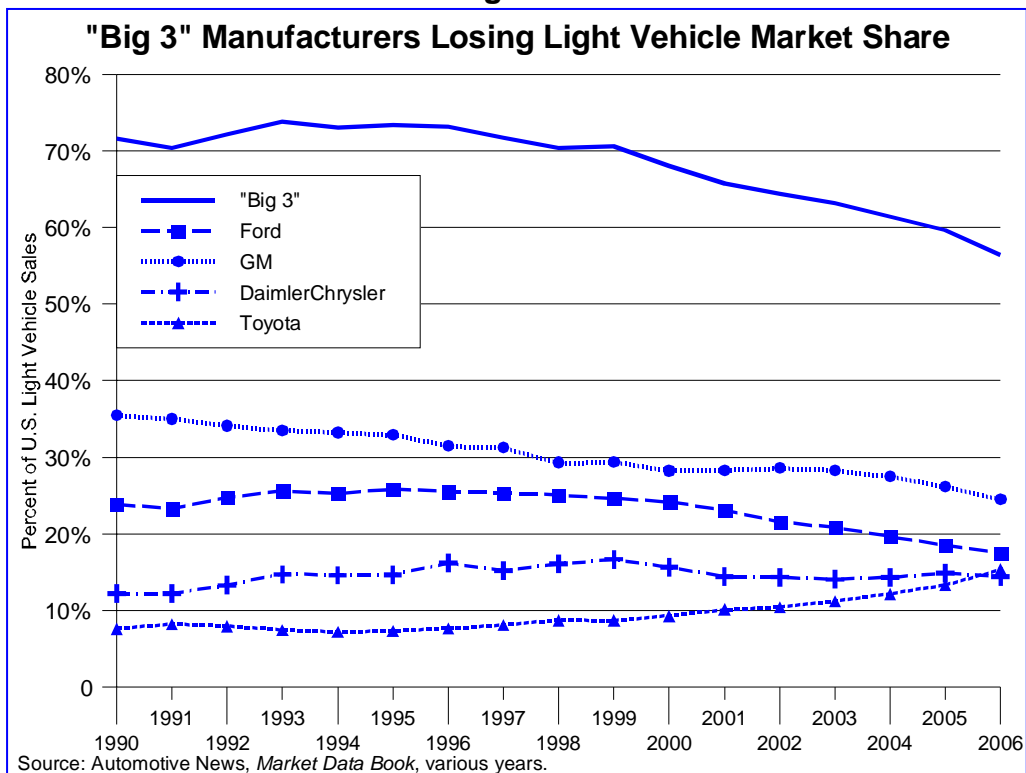


Figure 3

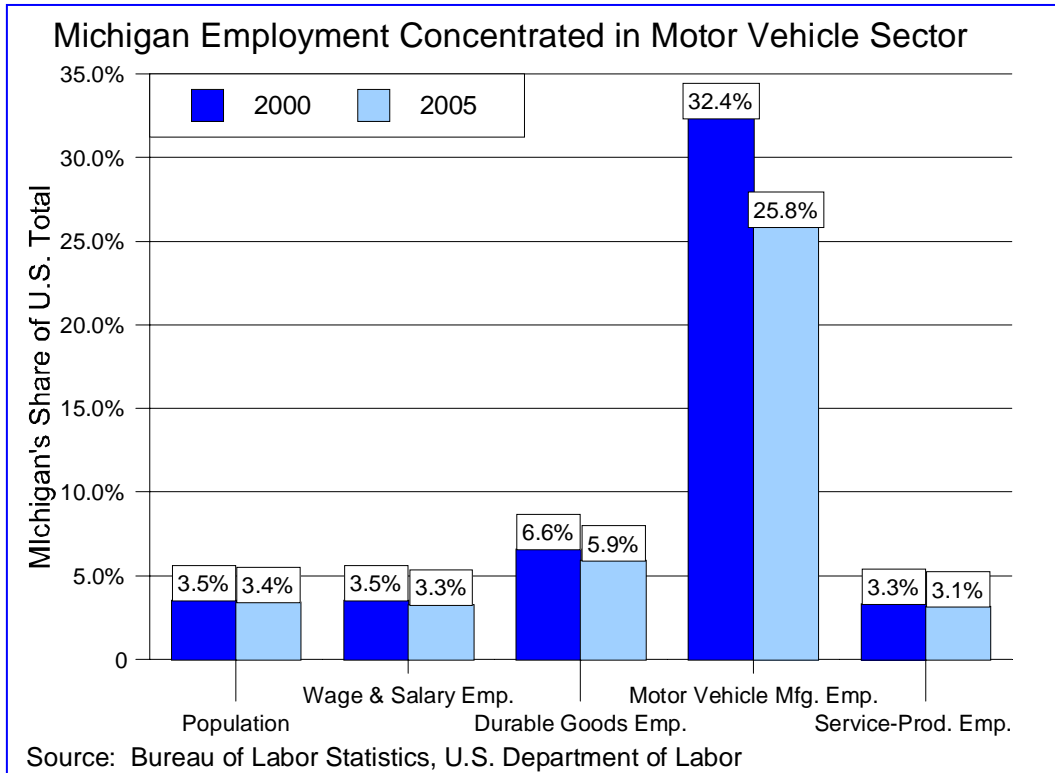


Figure 4

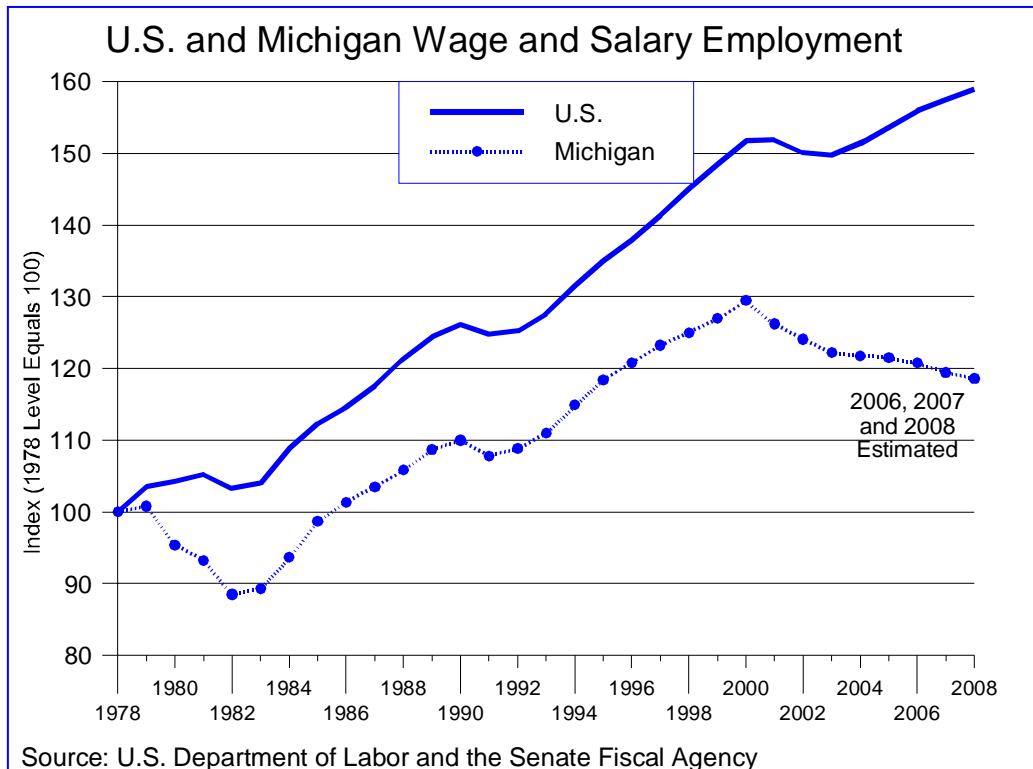


Figure 5

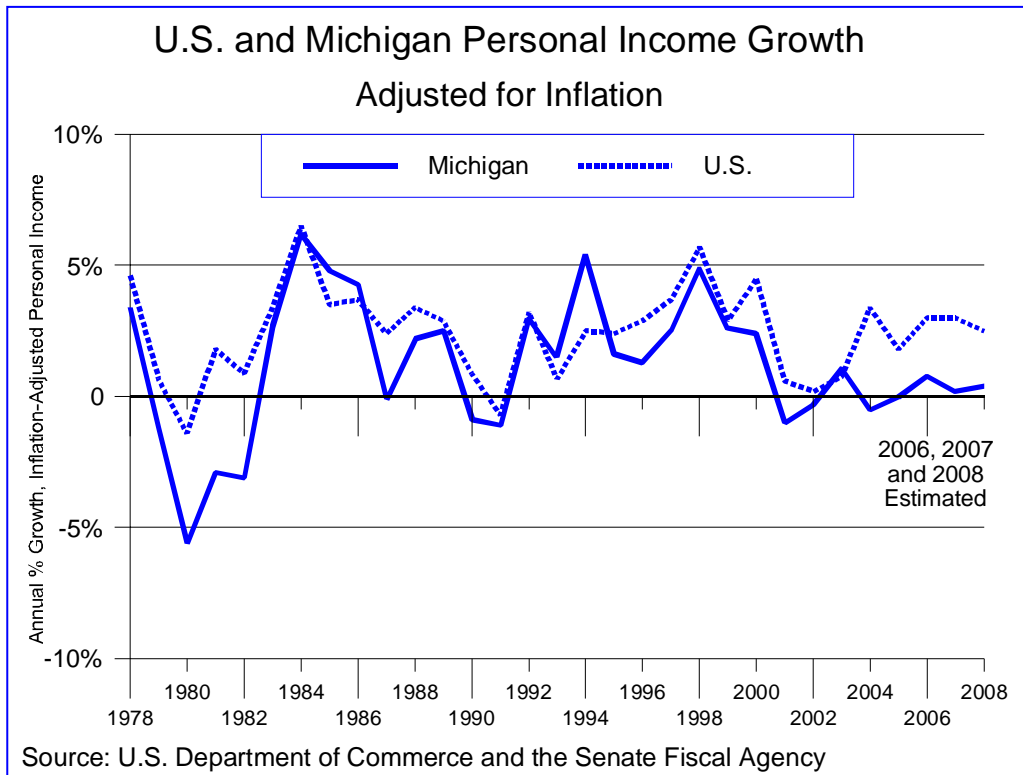


Figure 6

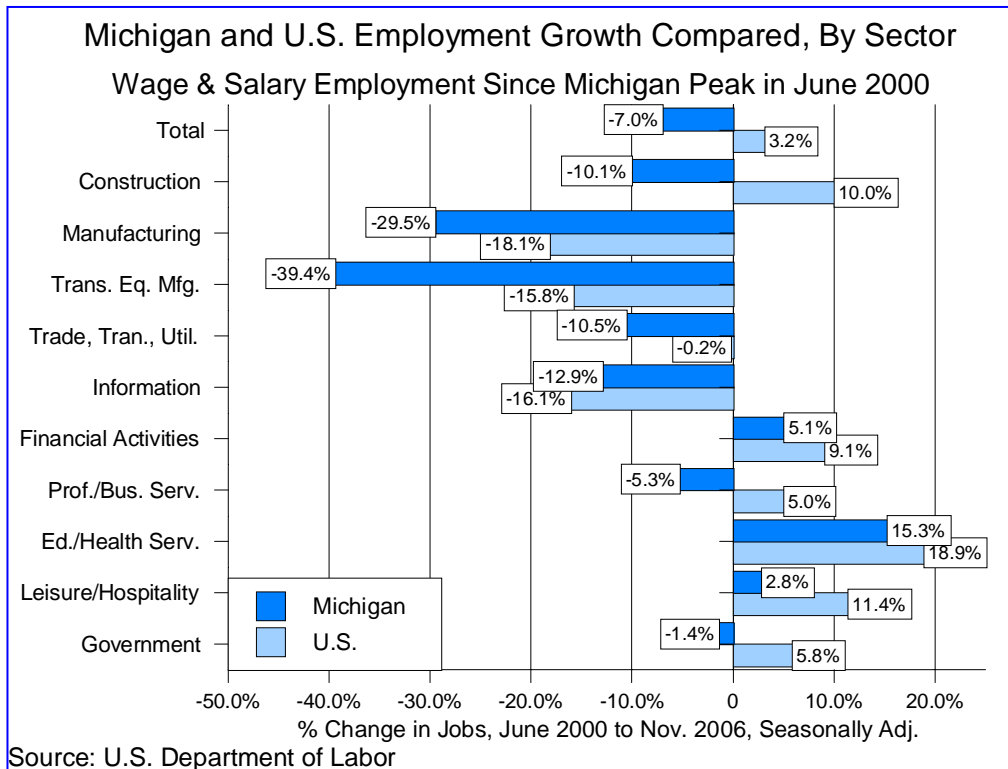
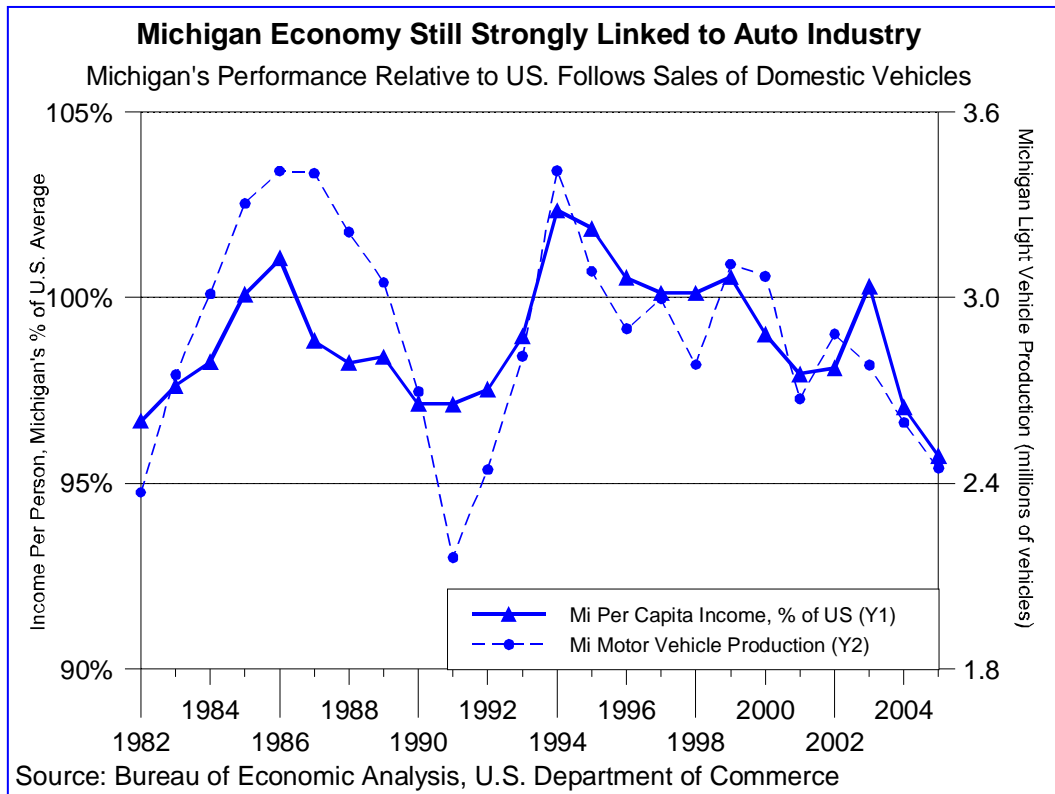


Figure 7



January 2007 Senate Fiscal Agency Revenue Estimates

- Actual FY 2005-06 General Fund/General Purpose (GF/GP) revenue collections totaled \$8.27 billion. This represents a \$52.1 million or a 0.6% decline from the prior fiscal year. Actual FY 2005-06 School Aid Fund (SAF) revenue collections totaled \$11.08 billion. This represents a \$172.3 million or a 1.6% increase from the prior fiscal year.
- The FY 2006-07 GF/GP revenue estimate is \$8.23 billion. This represents a \$233.7 million decrease from the May 2006 consensus revenue estimate.
- The FY 2006-07 SAF revenue estimate is \$11.23 billion. This represents a \$322.4 million decrease from the May 2006 consensus revenue estimate.
- The FY 2007-08 GF/GP revenue estimate is \$7.01 billion. This represents a \$1.22 billion or 14.8% decrease from the FY 2006-07 estimate. The majority of this revenue decline can be attributed to the elimination of the single business tax on January 1, 2008.
- The FY 2007-08 SAF revenue estimate is \$11.53 billion. This represents a \$302.9 million or 2.7% increase from the FY 2006-07 estimate.

Table 1

General Fund/General Purpose Revenue History (Millions of Dollars)			
Fiscal Year	Ongoing Revenue	Dollar Change	Percent Change
1997-98	\$8,810.5	\$444.0	5.3%
1998-99	9,580.0	769.5	8.7
1999-2000	9,799.3	219.3	2.3
2000-01	8,989.5	(809.8)	(8.3)
2001-02	8,368.0	(621.5)	(6.9)
2002-03	8,073.9	(294.1)	(3.5)
2003-04	8,317.2	243.3	3.0
2004-05	8,795.4	478.2	5.7
2005-06	8,809.7	14.3	0.2
2006-07	8,788.0	(21.7)	(0.2)
Note: Revenue has declined by \$1.0 billion or 10.3% from FY 1999-2000 to FY 2006-07.			

Table 2

School Aid Fund Budget History (Millions of Dollars)			
Fiscal Year	Ongoing Restricted Revenue	Dollar Change	Percent Change
1997-98	\$8,817.1	\$486.1	5.8%
1998-99	9,346.1	529.0	6.0
1999-2000	9,908.9	562.8	6.0
2000-01	9,994.1	85.2	0.9
2001-02	10,140.9	146.8	1.5
2002-03	10,715.0	574.1	5.7
2003-04	10,624.8	(90.2)	(0.8)
2004-05	10,909.8	285.0	2.7
2005-06	11,082.1	172.3	1.6
2006-07	11,230.0	147.9	1.3
Note: Revenue has increased by \$1.32 billion or 13.3% from FY 1999-2000 to FY 2006-07.			

Table 3

State's Compliance with Constitutional Revenue Limit Sec. 26, Article IX, State Constitution of 1963 Adjusted for Proposal A Revenue Increases (Millions of Dollars)			
Fiscal Year	Actual Amount Under/(Over) Limit	Proposal A Revenue Increases	Revenue Limit Compliance Adjusted
1993-94	\$2,151.0	\$1,300.1	\$3,451.1
1994-95	(109.6)	3,867.1	3,757.5
1995-96	183.2	4,093.1	4,276.4
1996-97	977.9	4,240.2	5,218.1
1997-98	640.1	4,492.0	5,132.1
1998-99	(21.7)	4,725.0	4,703.3
1999-00	(159.7)	4,988.0	4,828.3
2000-01	2,406.2	5,194.7	7,600.9
2001-02	3,917.1	5,415.4	9,332.6
2002-03	4,181.5	5,530.0	9,711.5
2003-04	4,440.7	5,818.2	10,258.9
2004-05	4,215.5	5,984.2	10,199.7
2005-06	4,818.7	6,131.3	10,950.0
2006-07	5,235.3	6,326.1	11,561.4

Table 4

Adjusted Gross Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$31,472.8	\$1,816.3	6.1%
1998-99	33,160.3	1,687.5	5.4
1999-2000	35,417.7	2,257.4	6.8
2000-01	36,953.3	1,535.6	4.3
2001-02	38,751.3	1,798.0	4.9
2002-03	39,553.1	801.8	2.1
2003-04	39,115.3	(437.8)	(1.1)
2004-05	39,909.5	794.2	2.0
2005-06	41,264.3	1,354.8	3.4
2006-07	41,886.3	622.0	1.5
Change FY 2000-01 to FY 2006-07		4,933.0	13.3
State Spending from State Resources Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$22,493.6	\$941.3	4.4%
1998-99	23,276.8	783.2	3.5
1999-2000	24,579.0	1,302.2	5.6
2000-01	25,761.6	1,182.6	4.8
2001-02	26,086.8	325.2	1.3
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,802.5	(218.0)	(0.8)
2004-05	26,285.3	482.8	1.9
2005-06	27,654.0	1,368.7	5.2
2006-07	28,077.6	423.6	1.5
Change FY 2000-01 to FY 2006-07		2,316.0	9.0
General Fund/General Purpose Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.4	136.7	1.4
2001-02	9,189.3	(555.1)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,770.1	(60.8)	(0.7)
2004-05	8,702.8	(67.3)	(0.8)
2005-06	9,056.6	353.8	4.1
2006-07	9,222.8	166.2	1.8
Change FY 2000-01 to FY 2006-07		(521.6)	(5.4)

Table 5

Federal Funds Appropriated in Michigan Budget (Millions of Dollars)			
Fiscal Year	Federal Funds	Adjusted Gross Appropriations	Federal as % of Total Adjusted Gross
1997-98	\$7,931.5	\$31,472.8	25.20%
1998-99	8,623.4	33,160.3	26.01
1999-2000	9,765.6	35,417.7	27.57
2000-01	10,002.2	36,953.3	27.07
2001-02	11,242.9	38,751.3	29.01
2002-03	12,226.7	39,553.1	30.91
2003-04	12,361.6	39,115.3	31.60
2004-05	12,855.5	39,909.5	32.21
2005-06	12,885.4	41,264.3	31.23
2006-07	13,328.0	41,886.3	31.82
% Change FY 2006- 07 From FY 1997-98	68.0%	33.1%	

Table 6

Federal Revenues as Percentage of Adjusted Gross Appropriations		
	FY 1997-98	FY 2006-07
Community Health	49.45%	54.15%
Human Services.....	56.99%	70.22%
Transportation.....	27.86%	33.98%
Education	7.22%	9.71%
Total Budget.....	25.20%	31.82%

Table 7

State Spending from State Resources Appropriations Total Compared to Selected Budget Areas (Millions of Dollars)				
Budget Area	FY 2002-03 Actual	FY 2006-07 Year-to-Date	Dollar Change	Percent Change
Community Health	\$3,259.4	\$4,811.3	\$1,551.9	47.6%
Corrections	1,655.6	1,927.3	271.7	16.4
K-12 School Aid	11,334.6	11,682.5	347.9	3.1
Community Colleges	310.9	289.9	(21.0)	(6.8)
Higher Education	1,839.4	1,784.5	(54.9)	(3.0)
Revenue Sharing ¹⁾	1,250.0	1,107.5	(142.5)	(11.4)
Total State Spending	26,020.5	28,077.6	2,057.1	7.9
Addendum:				
Federal Gov't Outlays (millions)	2,160,117	2,732,000		26.5
Michigan Personal Income (millions)	314,101	364,597		16.1
Detroit Consumer Price Index	182.0	200.1		9.9
¹⁾ Excludes Revenue Sharing paid to counties in FY 2002-03.				

Governor Granholm's FY 2006-07 Budget Recommendation Highlights

The Governor is recommending \$224.4 million in FY 2006-07 General Fund/ General Purpose (GF/GP) supplemental appropriations, including Community Health - \$109.2 million, Corrections - \$39.2 million, Human Services - \$66.0 million, and Treasury - \$10.0 million.

The approval of the recommended supplemental appropriations along with already enacted appropriations results in a \$565.0 million GF/GP budget deficit, as outlined in Table 8.

The FY 2006-07 School Aid Fund (SAF) budget is in deficit by \$377.4 million, as shown in Table 9.

The Governor recommends eliminating the projected \$942.4 million combined GF/GP and SAF budget deficits with a combination of revenue increases, retirement accounting changes, funding delays, program reductions, and the shifting of Federal and State Restricted funding to offset GF/GP-funded appropriations.

These budget balancing solutions, listed in Tables 10 and 11, would be implemented with a combination of statutory changes, the approval of positive and negative supplemental appropriations, and the approval of Executive Order 2007-1.

The projected \$942.4 million budget deficit is eliminated in the following proportions:

- Revenue Increases: 54.9%
- Retirement Accounting Changes: 29.1%
- Higher Education Funding Delays: 7.3%
- Program Reductions: 4.5%
- Fund Shifts/Other: 4.2%

Table 12 provides a summary of the FY 2006-07 budget balancing proposal. Table 13 presents the Governor's proposed tax policy changes and the FY 2006-07 estimated fiscal impacts. Tables 14 and 15 summarize the FY 2006-07 proposed supplementals and Table 16 summarizes Executive Order 2007-1. Appendices A and B provide the budget area details.

Table 8

FY 2006-07 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	February 2007 Gov's Rec.
Revenue:	
Beginning Balance.....	\$ 5.7
Consensus Revenue Estimate	8,230.0
Revenue Sharing Freeze.....	558.0
Land Sales.....	46.9
Shift Short Term Borrowing Costs to School Aid Fund	22.8
Forensic Center Settlement Revenue.....	7.8
Liquor Purchase Revolving Fund Transfer to General Fund.....	4.0
Consumer Finance Fees Transfer to General Fund	7.0
Total Revenue	\$8,882.2
Expenditures:	
Enacted Appropriations	\$9,222.8
Proposed Supplemental Appropriations	224.4
Total Expenditures	\$9,447.2
Projected Year-End Balance	\$ (565.0)

Table 9

FY 2006-07 School Aid Fund Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	February 2007 Gov's Rec.
Revenue:	
Beginning Balance.....	\$ 0.0
Consensus Revenue Estimate	11,230.0
GF/GP Grant	35.0
Federal Aid	1,411.2
Total Revenue	\$12,676.2
Expenditures	
Enacted Appropriations	\$13,093.8
Midland Property Tax Case	24.8
Appropriation Lapses.....	(65.0)
Total Expenditures	\$13,053.6
Projected Year-End Balance	\$ (377.4)

Table 10

Proposal to Balance FY 2006-07 General Fund/General Purpose Budget (Millions of Dollars)	
	February 2007 Gov's Rec.
Projected Year-End Balance	\$(565.0)
Revenue Increases:	
Consumer Services Tax (2.0%)	\$ 92.7
Business Services Tax (2.0%)	214.0
Other Tax Policy Changes	14.0
Executive Order 2007-1:	
Transportation Economic Development Revenue to GF/GP	6.0
Corporate Fee Revenue to GF/GP	<u>0.7</u>
Subtotal Revenue Increases	\$327.4
Appropriation Reductions:	
Supplemental Appropriation Reductions	\$ 72.8
Executive Order 2007-1	<u>166.9</u>
Subtotal Appropriation Reductions	\$239.7
Total Recommended Adjustments to Budget	\$567.1
Adjusted Year-End Balance	\$ 2.1

Table 11

Proposal to Balance FY 2006-07 School Aid Fund Budget (Millions of Dollars)	
	February 2007 Gov's Rec.
Projected Year-End Balance	\$(377.4)
Revenue Increases:	
Consumer Services Tax (2.0%)	\$ 51.5
Business Services Tax (2.0%)	118.8
Increase Liquor Markup	9.4
Other Tax Policy Changes	11.5
Public School Employees Retirement Assets Re-valuation	185.0
Expanded Club Keno Lottery Game	<u>7.5</u>
Subtotal Revenue Increases	\$383.7
Appropriation Reductions:	
Eliminate Various Categorical Grants	<u>\$ 5.0</u>
Subtotal Appropriation Reductions	\$ 5.0
Total Recommended Adjustments to Budget	\$388.7
Adjusted Year-End Balance	\$ 11.3

Table 12

FY 2006-07 General Fund/General Purpose and School Aid Fund Budget Balancing Proposal Summary (Millions of Dollars)		
Projected Budget Deficits:		
General Fund/General Purpose	\$(565.0)	
School Aid Fund.....	(377.4)	
Total Projected Deficits	\$(942.4)	
Governor's Proposed Solutions:		
		% of Total
Revenue Increases	\$525.4	54.9%
Retirement Accounting Changes	277.8	29.1
Higher Education Funding Delay	69.4	7.3
Program Reductions	43.0	4.5
Fund Shifts/Other Adjustments	40.2	4.2
Total Proposed Solutions	\$955.8	100.0%
Projected Year-End Balance	\$13.4	

Table 13

**Governor's Proposed Tax Policy Changes
FY 2006-07 Estimated Fiscal Impacts
(Dollars in Millions)**

Tax Proposal	GF/GP	SAF	Revenue Sharing	Medicaid Trust Fund	Other	Total
SBT Replacement						
Michigan Business Tax ¹⁾	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Insurance Tax: Rate Increase ¹⁾	0.0	0.0	0.0	0.0	0.0	0.0
Personal Property Tax Exemption ¹⁾	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal SBT Replacement	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Tax Increases						
2.0% Services Tax ²⁾	\$306.7	\$170.2	\$0.0	\$0.0	\$0.0	\$476.9
Commercial Rental Prop Tax ¹⁾	0.0	0.0	0.0	0.0	0.0	0.0
Estate Tax: Decouple from Fed Tax ³⁾	0.0	0.0	0.0	0.0	0.0	0.0
Liquor Markup Increase ²⁾	(0.2)	9.2	0.0	0.0	(0.2)	8.8
Cigarette Tax Increase: \$0.05/pack ²⁾	0.0	0.0	0.0	8.5	0.0	8.5
Other Tobacco Products Tax ²⁾	0.0	0.0	0.0	9.6	0.0	9.6
<u>Closing Tax "Loopholes":</u>						
Tax International & Other Calls (use tax) ²⁾	4.9	2.5	0.0	0.0	0.0	7.4
Interstate Trucks, Cut Sales/Use Exemption ²⁾	3.7	1.8	0.0	0.0	0.0	5.5
Tax Prisoner Purchases ²⁾	0.1	0.1	0.0	0.0	0.0	0.2
Tax Insurance Co. Out-of-State Purchases (use tax) ²⁾ ..	0.8	0.4	0.0	0.0	0.0	1.2
Repeal Oil & Gas Income Tax Exemption ⁴⁾	0.0	0.0	0.0	0.0	0.0	0.0
Tax Vended Foods (sales tax) ²⁾	2.3	6.5	0.0	0.0	0.0	8.8
Tax Water Softeners (property tax) ¹⁾	0.0	0.0	0.0	0.0	0.0	0.0
Tax Affiliates w/Nexus in MI (use tax) ²⁾	0.8	0.4	0.0	0.0	0.0	1.2
Increase Penalties on Delinquent Taxes ²⁾	1.7	0.0	0.0	0.0	0.0	1.7
Subtotal Tax "Loophole" Closings	14.2	11.7	0.0	0.0	0.0	26.0
Subtotal Tax Increases	\$320.7	\$191.1	\$0.0	\$18.1	\$(0.2)	\$529.8
Tax Decreases:						
Sales Tax Exemption on Trade-In Value ⁵⁾	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Change Due To Tax Policy Changes	\$320.7	\$191.1	\$0.0	\$18.1	\$(0.2)	\$529.7

* Change in revenue from the consensus revenue estimates adopted January 18, 2007.
1) Effective date January 1, 2008. 2) Effective date June 1, 2007. 3) Effective for deaths occurring on or after April 1, 2007. 4) 2007 tax year, but the first impact would be in FY 2007-08 when FY 2007 tax returns are filed. 5) Effective date October 1, 2008.

Table 14

**Recommended FY 2006-07 Supplemental Appropriations Details
(Actual Dollars)**

Department/Item	Gross Appropriation	GF/GP Appropriation
Community Health		
Medicaid Long-Term Care Savings.....	(\$46,000,000)	(\$20,065,200)
Mental Health/Substance Abuse	5,521,400	2,077,100
Unrealized Federal Pharmaceutical Rebate Savings.....	42,501,100	25,727,900
Unrealized Health Information Technology Savings	4,650,000	2,028,300
Unrealized Family Planning Waiver Savings	243,400	6,653,000
Unrealized Hospital Quality Assurance Assessment Program Savings ...	(79,024,400)	2,500,000
Additional Unrealized Medicaid Savings	(565,000)	1,168,400
Direct Care Worker Wage Increase	7,300,000	3,806,700
Anti-Viral Pandemic Influenza Drugs	15,670,000	15,670,000
Health Information Technology	7,250,000	0
Medicaid Benefits Trust Fund.....	12,500,000	0
Tobacco Settlement Revenue Shortfall.....	0	69,600,000
Crime Victims Rights Fund – Offset GF reductions to DHS programs	1,300,000	0
Hospital QAAP Modification	0	0
Community Health Subtotal.....	(\$28,653,500)	\$109,166,200
Corrections		
Prisoner Health Care	15,600,000	15,600,000
Inmate Housing Fund	23,600,000	23,600,000
Corrections Subtotal.....	\$39,200,000	\$39,200,000
Higher Education		
One-time Payment Reduction	(69,368,000)	(69,368,000)
Higher Education Subtotal.....	(\$69,368,000)	(\$69,368,000)
Human Services		
Day Care Case Review Pilot - Executive Operations Staff	355,700	246,900
Funding Shift - Replace TANF Revenue with IDG from DCH (Crime Victims Right's Fund \$1.3 million)	0	0
Foster Care Payments - Offset EO reduction with Federal Revenue	1,226,200	0
SSI Advocates - Funding Shift (\$213,500 from State Restricted to Federal)	0	0
Day Care Case Review Pilot - Central Support	156,900	114,600
AFC, Children's Welfare and Day Care Licensure - Licensing Fee Increase.....	123,400	0
Family Independence Program	65,679,500	65,679,500
State Disability Assistance Payments - Restricted Funds to Offset EO Reduction	213,500	0
Human Services Subtotal.....	\$67,755,200	\$66,041,000
Judiciary		
Adjustments to Reflect Retirement Savings.....	(954,300)	(887,600)
Administrative Savings	(375,000)	(375,000)
Judiciary Subtotal	(\$1,329,300)	(\$1,262,600)

Recommended FY 2006-07 Supplemental Appropriations Details (Actual Dollars)		
Department/Item	Gross Appropriation	GF/GP Appropriation
Labor and Economic Growth		
Welfare-to-Work Program	10,000,000	0
Fire Protection Grants	1,000,000	0
Labor and Economic Growth Subtotal	\$11,000,000	\$0
Legislature		
Adjustments to Reflect Retirement Savings	(2,303,000)	(2,144,800)
Legislature Subtotal	(\$2,303,000)	(\$2,144,800)
Management and Budget		
Budget and Financial Management - Offset EO reductions with available Federal revenue	61,700	0
Management and Budget Subtotal	\$61,700	\$0
Military and Veterans Affairs		
Offset EO Reduction to Jacobetti Veterans' Home	134,500	0
Military Affairs Subtotal	\$134,500	\$0
Treasury		
Tax Restructuring Initiative	10,000,000	10,000,000
Treasury Subtotal	\$10,000,000	\$10,000,000
Total FY 2006-07 Supplemental Appropriation Bill	\$26,497,600	\$151,631,800

Table 15

Recommended FY 2006-07 School Aid Supplemental Appropriations Details (Actual Dollars)		
School Aid Budget Item	Gross Appropriation	School Aid Fund Appropriation
<u>Fund Shift</u>		
School Aid Fund to PSERS Reserve Account	\$ 0	\$(185,000,000)
<u>Negative Adjustments</u>		
Foundation Allowance - fewer pupils	(21,250,000)	(21,250,000)
Special Education - decreased estimated costs	(20,000,000)	(20,000,000)
Children of Incarcerated Parents - eliminate grant	(1,875,000)	(1,875,000)
Web-Based Testing - eliminate grant	(1,000,000)	(1,000,000)
Book-a-Month - eliminate grant	(500,000)	(500,000)
Early Intervening - eliminate grant	(400,000)	(400,000)
School Building Security Mapping - eliminate grant	(350,000)	(350,000)
Positive Behavioral Support - eliminate grant	(300,000)	(300,000)
International Baccalaureate Grants - eliminate grant	(250,000)	(250,000)
Automated External Defibrillators - eliminate grant	(100,000)	(100,000)
Kalamazoo Pre-College Engineering - eliminate grant	(100,000)	(100,000)
Mercy Education Project - eliminate grant	(100,000)	(100,000)
<u>Positive Adjustments</u>		
Payments in Lieu of Taxes - additional cost	1,000,000	1,000,000
Total Supplemental Appropriation Bill	\$(45,225,000)	\$(230,225,000)

Table 16

Summary of Executive Order 2007-1

Department/Budget Area	FY 2006-07 GF/GP Year-to-Date	GF/GP Program Reductions	GF/GP Fund Shifts/ Other	GF/GP Retirement Reductions	Federal and Restricted Revenue Reductions	EO 2007-1 Total Reductions
Agriculture	\$30,913,300	(\$1,265,000)		(736,300)		(\$2,001,300)
Attorney General	32,896,000	(1,001,600)		(807,400)		(1,809,000)
Civil Rights	12,454,000	(25,700)		(263,300)		(289,000)
Civil Service	6,972,400	(175,300)		(208,900)		(384,200)
Community Colleges	289,879,400	0		(10,900,000)		(10,900,000)
Community Health	2,940,082,700	(2,183,700)	(19,750,000)	(6,225,800)		(28,159,500)
Corrections	1,858,555,000	(2,505,800)		(49,804,000)		(52,309,800)
Education	6,592,500	(178,300)		(101,900)		(280,200)
Environmental Quality	33,828,400	(1,600,700)		(809,500)		(2,410,200)
Executive	5,509,900	0		(43,000)		(43,000)
Higher Education	1,624,791,300	(2,655,700)		0	(6,000,000)	(8,655,700)
History, Arts, and Libraries	43,175,200	(229,300)		(512,700)		(742,000)
Human Services	1,197,447,900	(22,219,300)	(2,819,200)	(9,279,900)	(8,495,600)	(42,814,000)
Judiciary	160,604,800	0		0		0
Labor and Economic Growth	47,436,700	0	(1,000,000)	(329,200)	(10,660,000)	(11,989,200)
Legislative Auditor General	13,006,100	0		0		0
Legislature	115,066,600	0		0		0
Management & Budget	268,409,600	(190,800)	(15,731,700)	(603,100)		(16,525,600)
Military & Veterans Affairs	40,640,200	(335,600)	(134,500)	(703,600)		(1,173,700)
Natural Resources	25,269,600	(1,400)		(343,300)		(344,700)
School Aid	35,000,000	0		0		0
State	19,132,700	(2,400)		(449,900)		(452,300)
State Police	249,298,700	(9,200)		(6,761,900)		(6,771,100)
Transportation	0	0		0	(6,000,000)	(6,000,000)
Treasury (Debt Service)	76,243,700	0		0		0
Treasury (Operations)	56,509,700	(455,400)		(532,600)	(50,000)	(1,038,000)
Treasury (Revenue Sharing)	1,104,400	(892,400)		0		(892,400)
Treasury (Strategic Fund)	32,009,200	(1,725,500)		(424,600)		(2,150,100)
TOTAL	\$9,222,830,000	(\$37,653,100)	(\$39,435,400)	(\$89,840,900)	(\$31,205,600)	(\$198,135,000)
TOTAL GF/GP REDUCTION = (\$166,929,400)						

Governor Granholm's FY 2007-08 Budget Overview of Recommendations

The Governor's FY 2007-08 budget recommendation contains proposed revenue increases, proposed fee increases, increases and decreases in State programs, assumptions concerning the amount and utilization of Federal funds, funding for the costs associated with State employee salaries and fringe benefits, and numerous other proposals. Included with the FY 2007-08 budget recommendation is a comprehensive proposal to eliminate projected FY 2006-07 budget deficits.

The Governor's FY 2007-08 budget recommendation is based on the consensus revenue estimates agreed to on January 18, 2007. The FY 2007-08 General Fund/General Purpose (GF/GP) consensus revenue estimate is \$7.01 billion. This represents a 14.8% decline from the consensus estimate of FY 2006-07 GF/GP revenue. The FY 2007-08 School Aid Fund (SAF) consensus revenue estimate is \$11.53 billion. This represents a 2.7% increase from the consensus estimate of FY 2006-07 SAF revenue.

The Governor's FY 2007-08 budget includes several recommended tax policy changes. Included is a replacement for the single business tax, a 2.0% excise tax on services, the imposition of an estate tax, an increase in the rate of the cigarette tax, an increase in the State markup on liquor sales, and numerous other tax policy adjustments. These proposed tax increases will increase FY 2007-08 consensus GF/GP revenue by \$2.65 billion and FY 2007-08 consensus SAF revenue by \$438.9 million.

The Governor's FY 2007-08 budget includes numerous increases in fee revenue. These fee increases, which include the elimination of statutory fee sunsets, fee increases on existing fees, and the imposition of new fees, will total \$115.0 million.

The Governor's FY 2007-08 budget recommendation contains the following level of appropriations:

Adjusted Gross.....	\$42.6 billion
State Spending from State Resources.....	\$28.5 billion
General Fund/General Purpose.....	\$9.6 billion

Adjusted Gross appropriations represent a \$941.3 million or 2.3% increase from FY 2006-07 year-to-date appropriations. State Spending from State Resources appropriations represents a \$496.2 million or 1.8% increase from FY 2006-07 year-to-date appropriations. GF/GP appropriations represent a \$388.0 million or 4.2% increase from FY 2006-07 year-to-date appropriations.

Table 17
Governor's Proposed Tax Policy Changes
FY 2007-08 Estimated Fiscal Impacts¹⁾
(Dollars in Millions)

Tax Proposal	GF/GP	SAF	Revenue Sharing	Medicaid Trust Fund	Other	Total
SBT Replacement						
Michigan Business Tax ¹⁾	\$1,249.4	\$0.0	\$0.0	\$0.0	\$0.0	\$1,249.4
Insurance Tax: Rate Increase ¹⁾	40.0	0.0	0.0	0.0	0.0	40.0
Personal Property Tax Exemption ¹⁾	0.0	(203.4)	0.0	0.0	0.0	(203.4)
Subtotal SBT Replacement.....	\$1,289.4	\$(203.4)	\$0.0	\$0.0	\$0.0	\$1,086.0
Tax Increases						
2.0% Services Tax ²⁾	\$750.2	\$580.7	\$0.0	\$143.0	\$0.0	\$1,473.9
Commercial Rental Prop Tax ¹⁾	0.0	5.0	0.0	0.0	0.0	5.0
Estate Tax: Decouple from Fed Tax ³⁾	0.0	119.2	0.0	0.0	0.0	119.2
Liquor Markup Increase ²⁾	(0.6)	28.3	0.0	0.0	(0.6)	27.1
Cigarette Tax Increase: \$0.05/pack ²⁾	0.0	0.0	0.0	21.0	0.0	21.0
Other Tobacco Products Tax ²⁾	0.0	0.0	0.0	36.6	0.0	36.6
<u>Closing Tax "Loopholes":</u>						
Tax International & Other Calls (use tax) ²⁾	15.2	7.6	0.0	0.0	0.0	22.8
Interstate Trucks: Cut Sales/Use Exemption ²⁾	11.3	5.6	0.0	0.0	0.0	16.9
Tax Prisoner Purchases ²⁾	0.0	0.5	0.2	0.0	0.0	0.7
Tax Insurance Co. Out-of-State Purchases (use tax) ²⁾ ..	2.5	1.2	0.0	0.0	0.0	3.7
Repeal Oil & Gas Income Tax Exemption ⁴⁾	2.9	1.0	0.0	0.0	0.0	3.9
Tax Vended Foods (sales tax) ²⁾	0.6	20.0	6.6	0.0	0.0	27.2
Tax Water Softeners (property tax) ¹⁾	0.0	0.3	0.0	0.0	0.0	0.3
Tax Affiliates w/Nexus in MI (use tax) ²⁾	2.4	1.2	0.0	0.0	0.0	3.6
Increase Penalties on Delinquent Taxes ²⁾	5.1	0.0	0.0	0.0	0.0	5.1
Subtotal Tax "Loophole" Closings.....	40.0	37.4	6.8	0.0	0.0	84.2
Subtotal Tax Increases	\$789.6	\$770.6	\$6.8	\$200.6	\$(0.6)	\$1,767.0
Tax Decreases:						
Sales Tax Exemption on Trade-In Value ⁵⁾	\$(15.0)	\$(128.3)	\$(31.8)	\$0.0	\$0.0	\$(175.0)
Net Change Due To Tax Policy Changes	\$2,064.0	\$438.9	(\$25.0)	\$200.6	(\$0.6)	\$2,677.9
[*] Change in revenue from the consensus revenue estimates adopted January 18, 2007. The consensus revenue estimates include the impact of repealing the SBT effective December 31, 2007. ¹⁾ Effective date January 1, 2008. ²⁾ Effective date June 1, 2007. ³⁾ Effective for deaths occurring on or after April 1, 2007. ⁴⁾ 2007 tax year, but the first impact would be in FY 2007-08 when FY 2007 tax returns are filed. ⁵⁾ Effective date October 1, 2008.						

Table 18

Fee Increases Included in Governor's FY 2007-08 Budget		
Department/ Budget Area	Type of Fee	Estimate of New FY 2007-08 Revenue
Agriculture	Pesticide Applicator Fees	\$112,000
	Pet Shop License Fees	25,200
	Livestock Operations License Fees	20,500
	Horse Riding Stable License Fees	3,000
	Nursery Stock Fees	381,500
Education	Teacher Certification Fees (various)	\$1,504,400
	Teacher College Review Fees	54,000
Environmental Quality	Air Emissions Fees	\$16,576,000
	Groundwater Discharge Permit Fees	3,084,500
	Hazardous Waste User Fees	2,500,000
	Land and Water Permit Fees	6,200,000
	Mineral Well Regulatory Fees	75,000
	On-Site Wastewater Treatment Fees	598,000
	Pollution Prevention Program Fee	2,400,000
	Solid Waste Surcharge Fees	6,000,000
Human Services	Adult Foster Care/Child Day Care/Child Placing Licensing Fees	\$606,800
Judiciary	Court of Appeals Motion Fees	\$87,500
	Judiciary Local User Fees	1,693,000
Labor & Economic Growth	Corporation Fees	\$6,461,800
	Electrical, Mechanical, Plumbers, Inspectors License Fees	708,600
	Liquor License Fees	5,021,500
	Securities Fees	4,257,700
	License and Regulation Fees	2,611,100
Natural Resources	Hunting and Fishing License Fees	\$16,900,000
State Police	Fingerprint Fees	\$1,500,000
	Commercial Mobile Radio System Fees	700,000
	Liquor License Fees	2,597,500
Treasury	Commercial Mobile Radio System Fees	17,982,000
	Liquor License Fees	14,381,000
Total		\$115,042,600
	New Fees	\$ 4,745,000
	Increases of Existing Fees	58,294,800
	Extensions of Sunsets	52,002,800
	Total	\$115,042,600

FY 2007-08
General Fund/
General Purpose
Budget Recommendation

Table 19

Governor's FY 2007-08 Budget Recommendation General Fund/General Purpose Revenue Recommendations (Millions of Dollars)	
Consensus Revenue Estimate (January 2007)	\$7,010.0
<u>Revenue Adjustments not Included in the Consensus Estimate:</u>	
Revenue Sharing Adjustments	\$ 545.3
Michigan Business Tax	1,249.4
Insurance Company Premiums Tax	40.0
Consumer Services Tax (2.0%)	226.7
Business Services Tax (2.0%)	523.5
Sales Tax on the Difference (Auto Purchases)	(15.0)
Financial Institutions Fund Transfer to General Fund	2.0
Shift Short Term Borrowing Costs to School Aid Fund	22.8
Transportation Economic Development Revenue to General Fund	13.0
Other Tax Policy Changes	39.4
Subtotal Revenue Adjustments	\$2,647.1
Governor's GF/GP Revenue Recommendation	\$9,657.1

Table 20

FY 2007-08 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	Governor's Rec.
Revenue:	
Beginning Balance	\$ 2.1
Consensus Revenue Estimate	7,010.0
Revenue Sharing Adjustments	545.3
Recommended Revenue Adjustments:	
Michigan Business Tax	1,249.4
Insurance Company Premiums Tax	40.0
Consumer Services Tax (2.0%).....	226.7
Business Services Tax (2.0%).....	523.5
Sales Tax on the Difference (Auto Purchases)	(15.0)
Financial Institutions Fund Transfer to General Fund.....	2.0
Shift Short Term Borrowing Costs to School Aid Fund.....	22.8
Transportation Economic Development Revenue to General Fund .	13.0
Other Tax Policy Changes	39.4
Subtotal Recommended Revenue Adjustments	\$2,101.8
Total Estimated Revenue.....	\$9,659.2
Expenditures:	
Governor's Appropriation Recommendations.....	\$9,610.9
Projected Year-End Balance	\$ 48.3

Table 21

FY 2007-08 Governor's Appropriation Recommendation Major Proposed Changes from FY 2006-07 Year-to-Date General Fund/General Purpose Appropriations (Millions of Dollars)	
FY 2006-07 Year-To-Date Appropriations.....	\$9,222.8
FY 2007-08 Governor's Appropriation Recommendations	9,610.9
Net Increase in Appropriations	\$ 388.1
 Total Funding Increases	 \$ 695.8
Total Funding Reductions	(336.0)
Total Fund Shifts	28.3
Total GF/GP Funding Change	\$ 388.1

Table 22

FY 2007-08 Governor's Appropriation Recommendation GF/GP Major Funding Increases (Millions of Dollars)	
<u>Department/Program</u>	
Agriculture	
Buy Michigan Promotion	\$0.5
Community Colleges	
Operations Funding Increase (2.5%)	7.1
Wayne County Community College Adjustment	0.2
Renaissance Zone Reimbursements	0.2
Community Health	
Medicaid Caseload/Utilization/Inflation	98.1
Medicaid Rates for HMOs and Community Mental Health	52.0
Medicaid Long-Term Care Expansion	14.2
Corrections	
Funding of Additional Beds	28.1
Prison Re-entry Program Expansion	20.6
Pharmaceutical Costs	10.4
Correctional Officer Training School	2.7
Correctional Facilities Staffing and Adjustments	7.0
Field Operations	1.3
Various Other Funding Adjustments	12.4
Higher Education	
Operations Funding Increase (2.5%)	36.6
Tuition Incentive Program	7.1
Human Services	
Family Independence Program Caseload	82.4
State Disability Assistance Caseload	3.6
Adoption Subsidy Caseload	11.0
Jobs Education and Training Program	16.1
Information Technology-Bridges Project	9.3
Child Welfare Program Expansions	35.0
Labor and Economic Growth	
No Worker Left Behind Program	40.0
Michigan Nursing Corps	15.0
Strategic Fund Agency	
Michigan Promotion Program	10.0
Alternative Energy Initiative	7.0
Treasury	
General Obligation Bond Debt Service	19.9
Neighborhood Enterprise Zones	0.2
Renaissance Zone Reimbursements	0.5
Revenue Enhancement Program	0.4
Department Wide Economic Adjustments	
Wage and Salary Increases	76.1
Employee Insurance Costs	30.1
Retirement Contributions	39.7
All Other Economic Adjustments	1.0
Total Major Funding Increases	\$695.8

Table 23

FY 2007-08 Governor's Appropriation Recommendation GF/GP Major Funding Reductions (Millions of Dollars)	
<u>Department/Program</u>	
Agriculture	
Eliminate Local Soil Conservation District Grants.....	\$ (1.5)
Community Health	
Disproportionate Share Hospital Payments	(2.1)
Medicaid Long-Term Care Reductions	(14.4)
Healthy Michigan Fund Reductions	(9.9)
Corrections	
Reduction in Population and Intake of Nonviolent Offenders	(92.0)
Environmental Quality	
Drinking Water Revolving Loan Fund	(1.7)
Higher Education	
Eliminate Tuition Grant Program.....	(58.8)
Reduce Cooperative Extension Service (9.1% Reduction)	(2.7)
History, Arts, and Libraries	
State Aid to Libraries (50.0% Reduction)	(6.1)
Book Distribution Center Funding	(0.4)
Human Services	
Foster Care Program	(8.1)
Day Care Funding Reductions	(28.6)
Family Independence Program Policy Changes.....	(60.4)
Legal Support Contracts	(0.7)
Food Stamp Reinvestment.....	(4.0)
Indigent Burial Rate (25.0% Reduction).....	(1.5)
Child Support Payments to Friend of the Court	(2.0)
Teenage Parent Counseling Program	(3.5)
Community Action Agency Funding.....	(2.3)
Before and After School Programs	(5.0)
Early Retirement Sick Leave Payouts.....	(1.5)
Eliminate Various Location Specific Earmarks	(3.6)
Management and Budget	
State Building Authority Debt Service	(1.0)
Natural Resources	
Payments in Lieu of Property Taxes	(0.4)
Strategic Fund Agency	
Economic Development Job Training Grants	(1.6)
Treasury	
Qualified Agricultural Loan Payments.....	(2.5)
Revenue Enhancement Program.....	(1.2)
Statewide Operational Reductions.....	(18.5)
Total Major Funding Reductions	\$(336.0)

Table 24

FY 2007-08 Governor's Appropriation Recommendation GF/GP Major Funding Shifts to Increase/(Reduce) GF/GP (Millions of Dollars)		
<u>Department/Program</u>		
Community Health		
Medicaid Benefits Trust Fund Revenue Adjustment	\$	45.4
Limitations on Medicaid QAAP Revenue.....		21.4
Increase in Federal Medicaid Match Rate		(155.1)
Higher Education		
Funding Delay Repayment.....		69.4
Human Services		
Shift Various Federal to GF/GP.....		45.5
State Police		
Fire Investigation Fund Shift to Liquor License Revenue		(1.6)
At-Post Trooper Fund Shift to Liquor License Revenue		(1.0)
At-Post Trooper Fund Shift to GF/GP from Restricted		6.0
Executive Direction Fund Shift to Restricted		(0.5)
Support Service Fund Shift to Restricted		(0.2)
Criminal Justice Information Center Fund Shift		(1.0)
Total Major Funding Shifts	\$	28.3

Table 25

FY 2007-08 State Budget Recommendation Economic Increases Included in Budget (Millions of Dollars)		
	Gross	GF/GP
Wage and Salaries	123.5	76.1
Employee Insurance Costs	48.0	30.1
Retirement Contributions.....	54.5	39.7
Worker's Compensation	(2.7)	(1.8)
All Other Economics.....	3.9	2.8
Total Economics.....	227.2	146.9
Addendum: The cost of the Civil Service 2.0% salary increase on October 1, 2007, and 2.0% salary increase on April 6, 2008, is \$109.9 million in Gross appropriations. Pursuant to Article XI, Section 5 of the Michigan Constitution, the Legislature within 60 days of the budget submission may reject or reduce increases in the proposed salary increases. The rejection or reduction of the salary increases only takes effect if approved by two-thirds votes of the Senate and the House of Representatives.		

FY 2007-08
School Aid Fund
Budget Recommendation

Table 26

**FY 2007-08 School Aid Fund
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)**

	Governor's Rec.
Revenue:	
Beginning Balance	\$ 11.3
Consensus Revenue Estimate	11,532.9
GF/GP Grant	35.0
Federal Aid.....	1,410.1
<u>Recommended Revenue Adjustments:</u>	
Consumer Services Tax (2.0%)	175.5
Business Services Tax (2.0%)	405.2
Sales Tax on the Difference (Auto Purchases)	(128.3)
Impose Michigan Estate Tax.....	119.2
Increase Liquor Markup	28.9
Exempt Industrial and Commercial Property from Personal Property Taxes.....	(203.4)
Expanded Club Keno Lottery Game.....	15.0
Other Tax Policy Changes	41.8
Subtotal Recommended Revenue Adjustments.....	453.9
Total Estimated Revenue.....	\$13,443.2
Expenditures:	
Governor's Appropriation Recommendations.....	\$13,431.0
Projected Year-End Balance	\$ 12.2

Table 27

Governor's FY 2007-08 Budget Recommendations K-12 School Aid Appropriation Increases (Millions of Dollars)	
FY 2006-07 Governor's Recommended Appropriations ¹⁾	\$13,048.5
FY 2007-08 Governor's Recommended Appropriations	13,431.0
Net Increase in Appropriations	\$ 382.5
Recommended Appropriation Increases in Existing Programs:	
Basic Foundation Allowance Increase \$178 Per Pupil (2.5%)	\$125.3
Special Education State Cost Increases	51.2
Declining Enrollment Payments	16.0
MEAP Testing	10.7
Michigan School Readiness Program: Per-pupil increase	5.4
School Bond Loan Fund Debt Service	3.8
Renaissance Zone Reimbursement	3.0
ISD Operational Increase 2.5%	2.0
Health/Science Middle College Grants	2.0
Economics	0.3
Subtotal Appropriation Increases in Existing Programs	\$219.7
Recommended New Categorical Programs:	
Full-Day Preschool for Educationally At-Risk Children	\$194.6
Services Consolidation Incentives	10.0
Subtotal New Categorical Programs	\$204.6
Recommended Appropriation Reductions:	
Middle School Math Initiative	\$(20.0)
Equity Payment (Was Rolled in to Eligible Districts' Base Funding)	(20.0)
Conductive Learning Center Study	(0.3)
Freedom to Learn: Program ended	(1.5)
Subtotal Appropriation Reductions	\$(41.8)
Total Recommended Appropriation Changes	\$382.5
1) Assumes enactment of Governor's recommended supplemental changes for FY 2006-07.	

Table 28

Pupil Membership History FY 1994-95 to FY 2007-08				
Blend Calculation¹⁾	Fiscal Year	Local Districts	Charter Schools	Total
50/50	1994-95	1,593,306	0	1,593,306
50/50	1995-96	1,610,130	4,790	1,614,920
50/50	1996-97	1,634,074	11,520	1,645,595
60/40	1997-98	1,651,011	19,202	1,670,213
60/40	1998-99	1,656,186	31,109	1,687,295
75/25	1999-2000	1,651,300	45,290	1,696,590
80/20	2000-01	1,649,085	55,072	1,704,157
80/20	2001-02	1,647,459	62,113	1,709,572
80/20	2002-03	1,647,531	67,336	1,714,867
80/20	2003-04	1,640,929	73,473	1,714,403
75/25	2004-05	1,626,289	81,491	1,707,780
75/25	2005-06	1,607,880	89,654	1,697,534
75/25	2006-07	1,585,750	96,850	1,682,600
75/25	2007-08 ²⁾	1,562,400	105,100	1,667,500
¹⁾ Blend is a weighted average of the current school year September pupil count plus the prior school year February pupil count. ²⁾ Estimated at the January 2007 Consensus Revenue Estimating Conference.				